Annual Report

Newfoundland and Labrador Hydro

Mission

Newfoundland and Labrador Hydro is a crown corporation committed to providing cost-effective and reliable energy services to our customers for the benefit of all people of the province.

Our skilled and committed employees will use innovative methods and technologies, and will maintain high standards of safety and health, and environmental responsibility.

Table of Contents

Highlights 1

Chairman and President's Report 2

Least Cost Electrical Power and Energy 3

System Reliability 5

Environment 8

Employees 9

Customer Service 10

Future 11

Financial Report 12

Board of Directors 34

Officers 36

Head Office

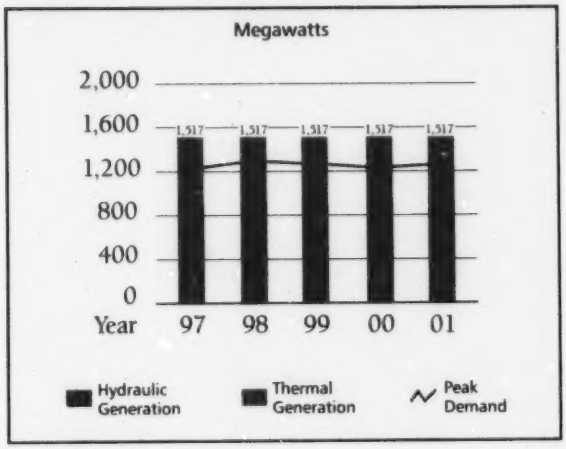
HYDRO
THE POWER OF COMMITMENT

Newfoundland and Labrador Hydro
500 Columbus Drive
P.O. Box 12400
St. John's, Newfoundland
Canada A1B 4K7

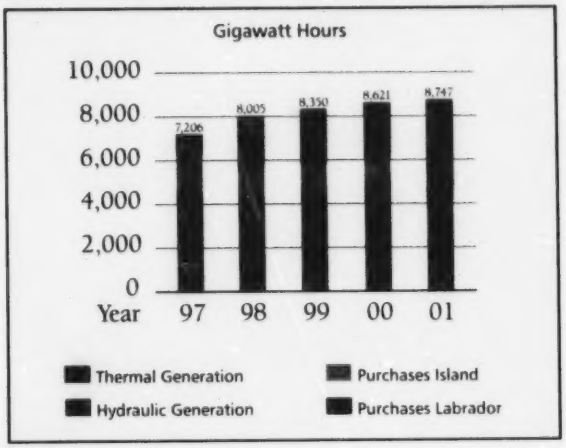
Telephone: (709) 737-1400
Facsimile: (709) 737-1231
Website: www.nlh.nf.ca
E-mail: hydro@nlh.nf.ca

102-04588/

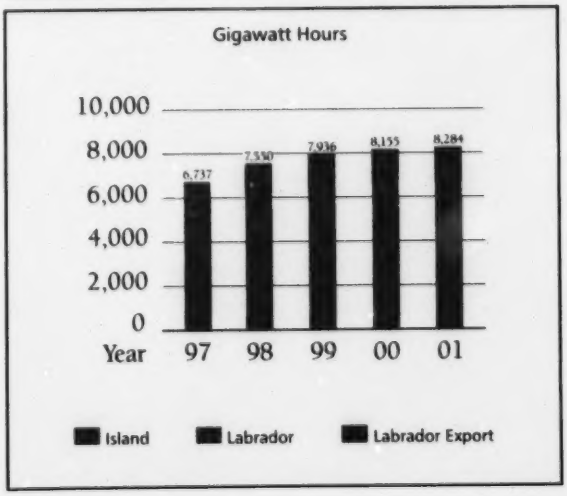
Island Interconnected Systems Gross Generated Capacity and Demand



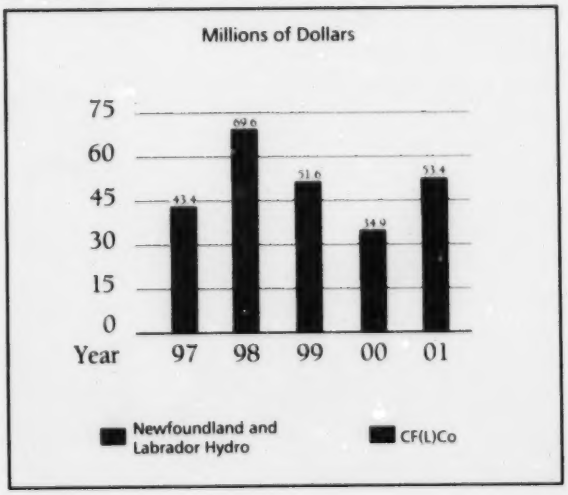
Interconnected Systems Gross Energy Generated and Purchased

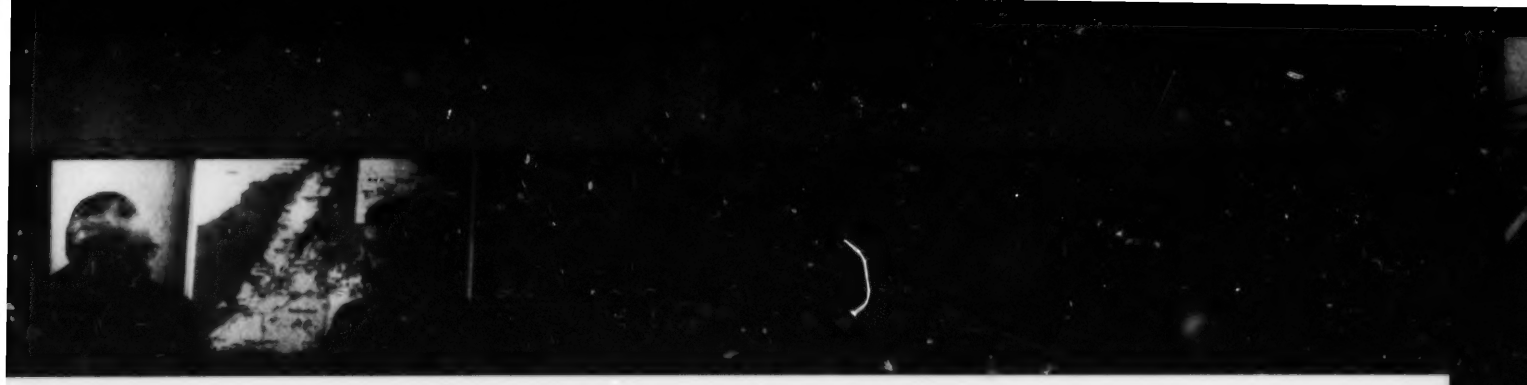


Interconnected Systems Energy Sales



Consolidated Net Income





NEWFOUNDLAND AND LABRADOR HYDRO (HYDRO) IS A CROWN CORPORATION, owned by the Province of Newfoundland and Labrador (province). Hydro generates, transmits and distributes electrical power and energy to utility, residential and industrial customers throughout the province.

Hydro is the parent company of the Hydro Group of Companies (Hydro Group) comprised of Newfoundland and Labrador Hydro, Churchill Falls (Labrador) Corporation Limited (CF(L)Co), Lower Churchill Development Corporation Limited (LCDC), Gull Island Power Company Limited (GIPCo), and Twin Falls Power Corporation Limited (TWINCo). The Hydro Group's installed generating capacity is the fourth largest of all utility companies in Canada. Our power generating assets include eight hydraulic plants, one oil-fired plant, four gas turbines, 29 diesel plants and the Churchill Falls hydraulic plant, which is the largest underground powerhouse in the world with a rated capacity of 5,428 megawatts (MW) of power.

Each year, the Hydro Group generates over 80 per cent of the energy consumed within the province. With a workforce of about 1,060 employees, the corporation directly serves several large industrial customers in the province and over 35,000 residential and commercial customers in rural Newfoundland and Labrador. Hydro also sells energy to Newfoundland Power, an investor-owned utility that distributes electrical power to the balance of the province's population.

We are pleased to report, on behalf of the Board of Directors, that 2001 was another successful year for the Hydro Group of Companies. We met our financial targets, successfully managed operating costs, improved system reliability, and operated in an environmentally responsible and prudent manner.

Overall, net income for the Hydro Group was $53.4 million on revenues of $397.1 million, a net income increase of $18.5 million over 2000. Earnings from Newfoundland and Labrador Hydro (Hydro) were the largest component of the Hydro Group's net income at $40.4 million compared to $17.4 million in 2000. This increase of $23.0 million is primarily the result of a renewal of the agreement on the sale of 130 megawatts (MW) of recall power and energy to Hydro-Québec. The net income from CF(L)Co was $13.0 million, compared to $17.5 million in 2000. This decrease of $4.5 million is due to lower energy sales and increased operating costs.

Energy sales within the province vary from year to year, depending on the level of demand from residential customers and on the level of activity among industrial users. Hydro's sales, on the Labrador and Island Interconnected Systems combined, grew by one per cent in 2001. This 1.0 per cent increase is the result of

a 2.1 per cent increase in demand on the Island System (to 6,017 gigawatt hours (GWh)) and a 7.0 per cent decrease in sales on the Labrador System (to 709 GWh). Higher sales to Newfoundland Power offset slightly lower sales to Hydro's industrial customers. The decrease on the Labrador Interconnected System was primarily due to reduced sales to an industrial customer.

The Guaranteed Winter Availability Contract between CF(L)Co and Hydro-Québec increased revenue by $2.9 million despite a decline in CF(L)Co export sales. CF(L)Co produced 32,910 GWh in 2001, 6.4 per cent less than 2000. Lower reservoir storage levels and lower demand from Hydro-Québec caused decreased export sales. CF(L)Co exported 28,159 GWh, 7.0 per cent below 2000. Sales to Hydro decreased to 2,381 GWh, and deliveries for TWINCo were lower at 1,821 GWh.

A renewal of the three-year agreement for the energy associated with the 130 MW sale by Hydro of Churchill Falls recall power to Hydro-Québec became effective March 9, 2001. Gross revenues under the new agreement are expected to be in the vicinity of $98 million, resulting in a profit to Hydro of approximately $86 million.

Encouraging financial results have a positive impact on our corporate performance. They support our mission of providing least cost, reliable electrical power and energy in a safe and environmentally sound manner.

Providing least cost electrical power and energy means keeping electrical rates and all costs as low as possible, while providing a reliable, safe, and environmentally acceptable energy supply.

During 2001, we focused significant resources on the task of filing a general rate application with the Board of Commissioners of Public Utilities (PUB). This year, for the first time in 10 years, Hydro requested a general rate increase from the PUB. Our proposal for an increase of 6.6 per cent to Newfoundland Power would result in an approximate 3.6 per cent increase in retail rates, and an 8.5 per cent increase in industrial rates if approved by the PUB. The PUB convened a hearing on our proposal on September 24, 2001.

Preparation and presentation of our application to the PUB was a lengthy, complex and challenging process, requiring significant effort on the part of those involved. The application generated over 20,000 pages of evidence and lasted for 68 days. Hearings concluded early in 2002 and we are currently awaiting a decision from the PUB.

One of the major reasons for the rate hearing was, and continues to be, the large difference between the real cost of fuel required to supply the Holyrood Thermal Generation Station (HTGS), and the cost included in our current rate formula approved by the PUB in 1991. The HTGS provides up to one quarter of the Island's electricity requirements by using Bunker C fuel (grade no. 6) to produce electricity. The consumption of fuel at the plant is dependent on production and demand and may vary from one and a half million to three and a half million barrels a year.

Current electricity rates include a price component for fuel of $12.50 a barrel, set by the PUB in 1991 when Hydro filed its general rate application. Hydro, in its general rate application filed on May 30, 2001, proposed that the price of fuel to be included in its rates be set at $20 per barrel. The proposal will permit the rates charged to electricity consumers to more properly reflect the current cost of fuel.

If the price of fuel is re-based at $20 per barrel in Hydro's rates, it will have a positive impact on the Rate Stabilization Plan (RSP), a plan intended to smooth out fluctuations in customers' bills as a result of variations in fuel prices, load and hydraulic production. To reduce the immediate impact on customers, we requested an increase in the current RSP cap for Newfoundland Power from $50 million to $85 million. This would allow the difference between the actual cost of fuel and the $20 per barrel included in Hydro's proposed rates to accumulate in the RSP and continue to be automatically recovered from customers over a three-year period.

The PUB was also requested to approve more uniform rates for customers on the Labrador Interconnected System. We proposed restructuring the current 24 rate classes in Labrador City, Happy Valley/Goose Bay and Wabush into six rate classes. This proposal reflects the principles used in rate-setting on the Island Interconnected System and supports the proposition that customers receiving essentially the

same service from an interconnected system should pay similar rates. Other issues dealt with in the application included rural subsidies, the cost of service, and the setting of rates based on a rate of return on regulated rate base. Hydro's 2002 capital budget was also submitted for approval.

Granite Canal Hydroelectric Development

Prior to the end of 2001, construction began on the Granite Canal Hydroelectric Development, a 40 MW project situated within the existing Bay d'Espoir development. Work on the project has progressed on schedule and within budget.

This year's construction phase followed design and specification preparation as well as tendering and contract execution. By the end of 2001, contractors had completed the 250-person construction camp; finished excavating the powerhouse, penstock, intake and power canal; poured over 4,000 m^3 of concrete at the powerhouse and intake; constructed the warehouse; completed over 75 per cent of their detailed design work; upgraded 86 km of road to the site; and cleared and started surveying the transmission line right-of-way. The use of new technologies throughout the transmission line design process has resulted in time savings.

Throughout the development of this project, specific emphasis has been placed on associated environmental issues. The public has been consulted and Hydro has provided a comprehensive review of its extensive environmental monitoring and mitigation plans. Sensitivity to environmental concerns includes items such as consideration of five years of data on caribou migration in the area of the project. Environmental principles and policies have been set and internal procedures are in place to ensure environmental policies are followed.

The Granite Canal plant is scheduled to begin producing electrical energy by mid-2003. It will be remotely controlled from our Energy Control Centre in St. John's and will assist us with supplying the Island's power and energy requirements in the future.

Hydro is dedicated to providing quality power within a reliable system. In 2001, we improved service to customers by decreasing the number and duration of power outages; we achieved operating capacity records at Holyrood in response to additional demands; and we undertook capital works projects to improve the reliability of our transmission lines, to enhance telecommunications infrastructure, and to conduct significant maintenance work at Churchill Falls.

Inter-Utility Cooperation

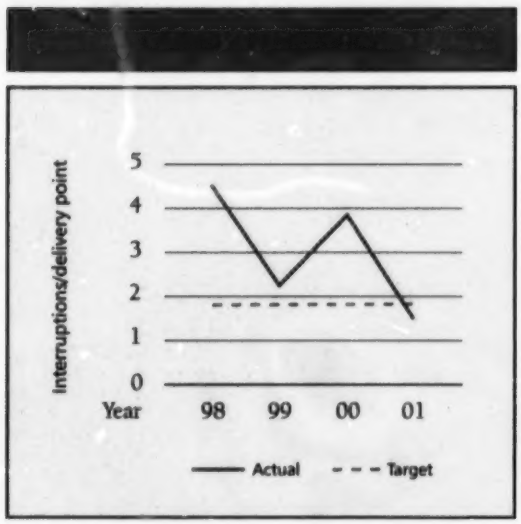
In 2001, we moved into the second year of a joint initiative to improve the performance on the Island Interconnected System. The Inter-Utility System Reliability Committee, comprised of senior representatives from Hydro and Newfoundland Power, sets objectives to continually improve service to the customers of both utilities.

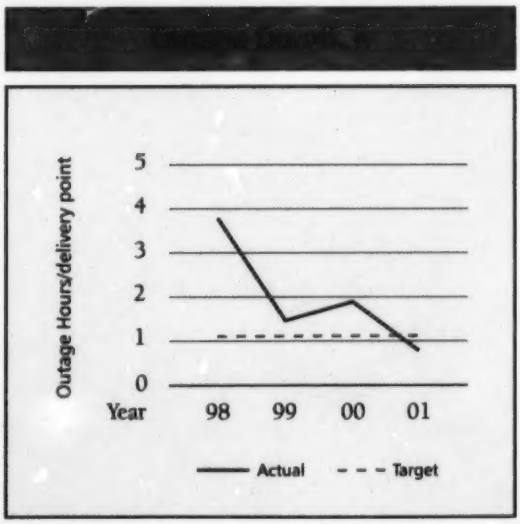
This year, our efforts to achieve performance targets in the operation of the transmission network both on the Island and in Labrador were successful. We improved our record for outages and outage durations to our high

voltage delivery points to Newfoundland Power, to industrial customers and to our distribution systems. Our actual outage frequency and duration results were well below established targets for 2001. The number of outages was 20.1 per cent better than our target, and the outage time was 36.1 per cent better.

Our ongoing efforts to improve system reliability, coupled with favourable weather conditions in 2001, enabled us to exceed our expectations. Moreover, we have undertaken specific actions such as installing lightning arrestors on critical 230 kilovolts (kV) transmission lines; maintaining a lightning tracking system; replacing insulators; and upgrading transmission line ice-loading capability while continuing to raise the profile of reliability throughout the corporation.

Hydro will continue efforts to improve reliability performance in 2002.





Peak Production Records

Reservoir levels deteriorated significantly in 2001 as Hydro experienced its seventh-lowest year of inflows in a 51-year period. This resulted in a significant increase in thermal production from HTGS to 2,219 GWh, the second highest on record. Production from Hydro's hydraulic resources decreased by 21 per cent to 64 per cent of the corporation's total production.

The high production at HTGS resulted in production-related records throughout the year. During December, the plant established a record high output of 504 MW and a one-day production record of 11.8 GWh. In addition, the plant achieved a record annual efficiency factor of 633 kWh/barrel of fuel. High utilization and on-line Performance Monitoring Programs on each unit contributed to the achievement of these results. From November 16, 2001, the three generating units at HTGS were operating at full capacity.

Avalon Transmission Line Upgrade

Construction continued in 2001 on a multi-year capital program to strengthen transmission lines on the Avalon Peninsula. By the end of the year, the third phase of the upgrade program between Come-by-Chance and Chapel Arm was completed.

The upgrade, involving 44 km of transmission line, was completed on schedule and on budget. It will improve the reliability of our 230 kV transmission lines under wind and ice-loading conditions. It will also result in an increase in load-carrying capability, which will provide an opportunity for more flexible and efficient use of our generating resources on the Avalon Peninsula.

Work is continuing on the final phase, which is to upgrade two transmission lines between Holyrood and St. John's.

East Coast Microwave Project

The East Coast Microwave Project is a new digital microwave radio system that provides communications to the majority of the power transmission terminal stations on the Avalon Peninsula. This state-of-the-art telecommunications infrastructure was constructed to replace powerline carrier systems that were at the end of their 30-year service life and to improve our ability to restore power during system disturbances. The project involved the construction of nine microwave towers and the installation of associated communications equipment.

West Tailrace Tunnel Maintenance

In 2000, the first inspection of the mile-long West Tailrace Tunnel at Churchill Falls was completed. The tunnel, in generally excellent shape after more than 28 years of service, required maintenance on a very short section. This was successfully completed in 2001 at a cost of $3.5 million without any disruption in service.

We continue to maintain our proactive position on environmental responsibility and stewardship. This year, among many other environmental initiatives, we produced a comprehensive report on our environmental activities and performance. Efforts continued to develop and maintain environmental management systems that meet international standards, and we continued to enhance public awareness and foster open communication with our stakeholders.

Environmental Performance Report

In 2001, we published our first annual Environmental Performance Report. Although protection of the environment has long been one of our corporate priorities, the report provided us with a means to inform stakeholders of the comprehensive set of principles which guide our environmental activities and evaluate our performance.

ISO 14001 Registration

We are committed to continuing our work in meeting worldwide quality environmental standards. In 1997, we adopted the Environmental Management System (EMS) standard established by International Organization for Standardization (ISO). This standard, also adopted by the Canadian Electricity Association, sets a framework for continually improving environmental performance.

To meet the ISO 14001 standard, the Hydro Group has been divided into management areas, each with its own environmental management team comprised of local senior managers. Each area sets objectives and targets, and plans and implements programs to achieve them. Independent auditors evaluate the management system's effectiveness in controlling those aspects of its activities that may have a significant impact on the environment. Upon successful review, management areas qualify for ISO 14001 certification. The EMS, however, must continually improve for certification to be maintained.

We began our goal of achieving ISO 14001 performance measurements throughout the entire corporation with our thermal generating station at Holyrood (1999), followed by our hydro generating stations on the Island and in Labrador, which received ISO 14001 certification during 2000. In 2001, we achieved certification for our corporate management and services management areas.

The Transmission and Rural Operations (TRO) Division has begun the process of implementing an EMS. We hope to achieve full implementation in each of the three TRO regions by the end of 2002, and receive ISO 14001 certification in 2003. This will include the transmission network and rural operations including diesel generators and associated distribution network.

The EMS for the Services departments will be expanded to include departments which provide services to TRO and other corporate activities.

Stack Emissions Testing

Stack emissions testing, conducted every two years, was performed on the three generating units at Holyrood

during 2001. These tests monitor particulates, particulate particle size, metals, sulphates, sulphur dioxide (SO_2), nitrogen oxides (NO_x), carbon monoxide (CO), and carbon dioxide (CO_2) in the exhaust stacks.

The test results are reported to the provincial Department of Environment to satisfy an existing agreement. Test results also provide on-site measurement data to be used for site evaluation, annual reporting and exhaust-gas modeling. These results provide data on our initiatives to improve overall unit performance and efficiency.

Community Liaison Committee

In an effort to enhance public awareness and foster open communication with stakeholders, the management of the Holyrood plant continued meetings with its Community Liaison Committee. The committee is comprised of representatives from the provincial Department of Environment, the Town of Conception Bay South, the Town of Holyrood, the Regional Health and Community Services Board, and Hydro management.

The meetings, held bi-monthly, present a forum to review plant performance as it relates to the general public. Discussions address general inquiries and impending operational issues. At each meeting, we present a status report of Holyrood's EMS and Environmental Management Programs. The report covers topics such as air monitoring, generating unit efficiency, asbestos abatement, controlled substance spill, waste material recycling, auxiliary power usage, general service cooling water usage, waste disposal of contaminated materials and oil system leak detection surveillance.

The work of the Community Liaison Committee is conducted in the spirit of open community consultation. We consider it to be one of the successes that has and will continue to guide us in our efforts to be more aware of the concerns of local residents.

Open House

We invited the general public to attend an open house at Holyrood during Environment Week. The theme for Environment Week 2001 was "Acting Today for Tomorrow".

Throughout the week, group tours were scheduled and an official open house was held. Displays focused on environmental activities such as the plant's EMS and on facilities like the ambient air monitoring network, wastewater treatment plant and controlled waste landfill. Guests were invited to view a slide presentation and take a guided tour of the facility.

[redacted]

We recognize the contribution of each one of our employees towards the overall success of the corporation. We remain committed to providing them with a safe work environment in which they can feel respected and valued.

Safety and Health Program

Safety continues to be the corporation's first priority. Early this year, we introduced a revised Safety and Health Program; and by the end of the year, most employees had received a comprehensive introduction to the program. The objective of the revised program is to provide employees and our contractors with more comprehensive direction and guidance for safety and health in the workplace.

We are committed to protecting our employees from personal injury and occupational illness by providing and maintaining safe and healthy workplaces. Both Hydro

and CF(L)Co have made significant reductions in the frequency and severity of accidents since last year.

Our goal is to achieve the best possible safety record in our industry.

Contributions

The Hydro Group and our employees contribute annually to numerous charities and projects. In 2001, corporate donations were made to hospitals, youth groups and the arts, among others. Employees and their social clubs held special fundraisers to assist food banks and raise funds for a variety of worthy causes.

Both the Hydro Group and our employees provided assistance following the September 11th terrorist attacks on the United States. We provided a special corporate donation to the Canadian Red Cross; social club members collected funds from employees to provide additional financial support; and employees donated comfort kits and took it upon themselves to organize a breakfast at our offices for stranded airline passengers diverted to St. John's following the attacks.

We are committed to listening to customers. In 2001, we continued to survey customers to measure their satisfaction with the service provided. Overall, 96 per cent of our residential customers were satisfied with the level of service provided by our employees. Furthermore, our Customer Service Index (CSI), a weighted average of satisfaction scores for each of 14 issues, was 7.9 out of 10. The analysis of information collected in these surveys enables us to identify opportunities and implement practices to continuously improve our record of customer service.

In 2001, we redesigned our customer newsletter. Customer News continues to readily address issues our customers have identified as important. We have also implemented three new initiatives to improve workflow, establish consistency, and improve efficiency in the way employees respond to customer requests and inquiries. Our "Contribution in Aid of Construction" (CIAC) on-line system is part of a new process for handling new service requests; our "Damage Claim" on-line system makes it easier for us to handle customer damage claims; and our "Customer Assistance" database enhances our ability to process general customer inquiries.

In 2002, two new payment options will be introduced for customers – an equal payment plan and a pre-authorized payment option – in response to customer interest. We will continue to focus on customer concerns and will respond to identified customer needs to ensure continuous improvement in the service provided.

Meter Shop

Hydro's meter shop in St. John's received formal accreditation from Measurement Canada on February 21, 2001. An accredited meter shop permits us to seal our own customer meters and, as well, allows us to provide service to others. Accreditation followed a Measurement Canada review and audit of the ISO 9000-compliant Quality Assurance Program for customer metering. This program covered the revenue metering process from start to finish and involved all employees who are involved in providing meters to our customers.

We are proud that Hydro is the only organization in Newfoundland and Labrador to have an accredited Meter Shop. This reflects our employees' commitment and brings a higher level of quality assurance to our customer metering process.

The Government of Newfoundland and Labrador previously announced that it would conduct an Energy Policy Review to establish the future direction for the electricity industry within the province. The review includes an examination of existing legislation and regulation, the existing electricity industry structure, pricing, electricity supply, and the use of electricity as a tool for economic development. A position paper is expected to be released in the Spring of 2002.

Internally, meetings continued in 2001 to involve employees at all levels in an ongoing strategic planning process to ensure our future success. In 2002, the emphasis will continue on the establishment of key performance indicators which demonstrate Hydro's ability to meet its commitment of reliable, least-cost power in the future. This process will have a significant impact on how the organization will evolve to meet future needs.

As we move to the future, providing cost-effective, reliable service in a safe and environmentally friendly manner continues to be our priority. In 2002, we are looking forward to receiving a decision from the PUB on our general rate application; making progress on the Granite Canal Hydroelectric Development; improving system performance; finalizing a multi-year capital program to strengthen transmission lines on the Avalon Peninsula; completing ISO 14001 registrations; and making additional progress with safety and health in the workplace.

We would like to note the retirement of Executive Vice-President (Production) and President of CF(L)Co, David Collett, following a 35-year career with the Hydro Group. He has made an outstanding contribution to the organization, and we wish him well. We would also like to thank members of the Hydro Board of Directors for their contribution and support during the last year.

On behalf of our Board, we would like to thank our employees for their continued commitment this year. It is through them that we achieve recognition as a cost-effective and quality supplier of energy services.

William E. Wells
President and Chief Executive Officer

Dean T. MacDonald
Chairman of the Board

THIS REVIEW AND ANALYSIS FOCUSES ON THE consolidated operating results and financial position of the Hydro Group of Companies, except where commentary is identified as relating to Hydro only.

millions of dollars	**2001**	2000
Total revenue	**397.1**	379.7
Total expenses	**343.7**	344.8
Net income	**53.4**	34.9
Dividends	**53.3**	69.9
Retained earnings	**528.6**	528.5

Net Income

Net income for 2001 amounted to $53.4 million compared with $34.9 million for 2000. The increase of $18.5 million was mainly due to an increase in the sale of recall energy to Hydro-Québec combined with a small decrease in operations and administration expenses.

Revenue

Total revenue for 2001 was $397.1 million, an increase of $17.4 million over 2000. Energy sales for 2001 were $374.8 million, an increase of 5.0% or $17.8 million over 2000, primarily as a result of higher sales of recall energy to Hydro Québec and higher retail sales to Newfoundland Power. This was partially offset by lower rural sales. Recovery of costs included in the Rate Stabilization Plan decreased from $13.9 million in 2000 to $11.2 million in 2001. The guaranteed winter availability contract between CF(L)Co and Hydro-Québec, also increased revenue by $2.9 million. Other revenue decreased by $0.6 million.

Expenses

Total expenses for 2001 amounted to $343.7 million, a decrease of 0.3% or $1.1 million from 2000. The total cost of fuels was $50.2 million in 2001, an increase of $7.7 million over 2000, primarily due to the changes in fuel prices, energy sales and hydraulic generation. Power purchases totaled $15.6 million in 2001, a decrease of $0.2 million from 2000. Operations and administration expenses were $119.1 million in 2001, a decrease of $0.3 million from 2000, primarily due to an increase in capital recoveries in Hydro partially offset by slightly higher salary and fringe benefit costs in 2001 and higher professional services related to Hydro's 2001 rate application. The amortization of costs in the Rate Stabilization Plan decreased from $13.9 million in 2000 to $11.2 million in 2001.

Depreciation expense was $44.5 million in 2001, a decrease of $3.2 million from 2000 primarily due to some major generating assets in Hydro being fully depreciated early in 2001. Total interest expense, which includes a debt guarantee fee, was $103.1 million in 2001, a reduction of $2.4 million from 2000, primarily due to higher interest earned and lower rates partially offset by higher debt balances.

Capital Expenditures

Expenditures for additions to fixed assets in 2001 amounted to $94.9 million compared to $52.8 million in 2000. The 2001 expenditures were for various additions to plant, transmission and distribution facilities throughout the province. Expenditures include $36.9 million for the Granite Canal project, $7.7 million related to the potential development of hydro projects in Labrador, $14.3 million for major transmission line upgrades and $10.0 million for a new microwave system. The capital program is financed from funds generated internally from operations and funds acquired through borrowing in the capital markets.

Dividends

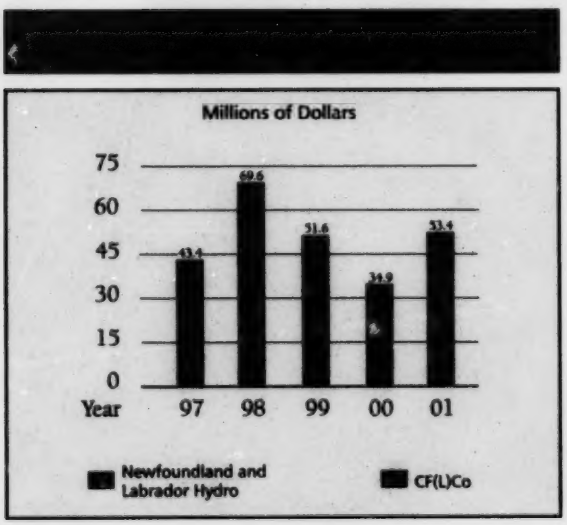
Hydro commenced paying common dividends to the province in 1995. Hydro pays a dividend based on its net operating income and a further dividend based on the cash flow that Hydro receives from its investment in CF(L)Co, net of debt servicing costs related to the debt that Hydro incurred to finance its investment in CF(L)Co. The payments made by Hydro in 2001 were $43.3 million from net operating income and $10.0 million from its investment in CF(L)Co.

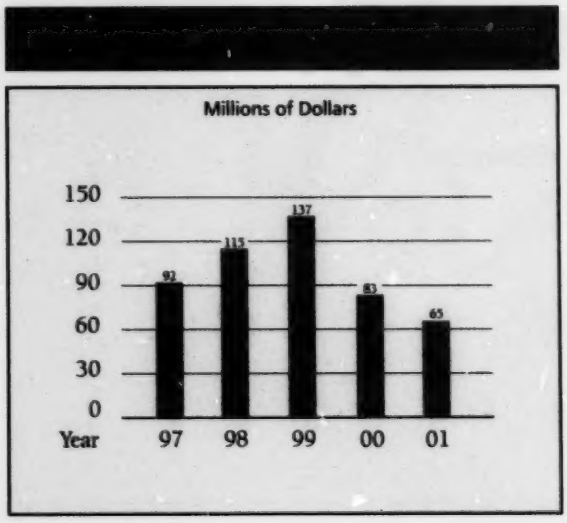
Debt

During 2001, there were two new debentures issued. The first was for $150 million carrying a coupon of 6.65% maturing in August 2031. The second was for $100 million carrying a coupon of 5.05% and maturing in December 2006. In addition, the Series W debenture matured in 2001. This debenture was for $150 million and carried a coupon of 10.75%. The retirement of this relatively high coupon bond and its replacement with lower cost debt, has enabled Hydro to realize a continued trend toward a reduction in its overall cost of debt.

Total debt is as shown in the following table:

millions of dollars	**2001**	2000	Increase (Decrease)
Hydro			
Long-term debt	**1,122.3**	1,033.1	89.2
Promissory notes	**138.0**	120.8	17.2
	1,260.3	1,153.9	106.4
CF(L)Co			
Long-term debt	**180.7**	201.1	(20.4)
Total debt	**1,441.0**	1,355.0	86.0





Segmented operating results are as follows:

millions of dollars	**2001 Hydro**	**CF(L)Co**	**Total**	2000 Hydro	CF(L)Co	Total
Revenue						
Energy sales	**325.3**	**62.7**	**388.0**	303.2	64.2	367.4
Recovery of costs in RSP	**11.2**	**-**	**11.2**	13.9	-	13.9
	336.5	**62.7**	**399.2**	317.1	64.2	381.3
Expenses						
Operations and administration	**90.8**	**28.3**	**119.1**	93.2	26.2	119.4
Fuels	**50.2**	**-**	**50.2**	42.5	-	42.5
Amortization of RSP costs	**11.2**	**-**	**11.2**	13.9	-	13.9
Power purchased	**20.1**	**-**	**20.1**	20.4	-	20.4
Depreciation	**32.2**	**11.2**	**43.4**	35.5	11.0	46.5
Interest	**91.6**	**8.7**	**100.3**	94.2	9.1	103.3
	296.1	**48.2**	**344.3**	299.7	46.3	346.0
Income from operations	**40.4**	**14.5**	**54.9**	17.4	17.9	35.3
Interest on debt financing the CF(L)Co investment and other dedicated costs	**-**	**1.5**	**1.5**	-	0.4	0.4
Net income to Hydro	**40.4**	**13.0**	**53.4**	17.4	17.5	34.9

Hydro calculates its debt/equity ratio and interest coverage on a non-consolidated basis. These are shown in the following table:

Year	Interest Coverage	Capital Structure % Debt	Equity
*2001	1.42	80	20
*2000	1.18	78	22
*1999	1.33	76	24
*1998	1.42	77	23
1997	1.23	80	20

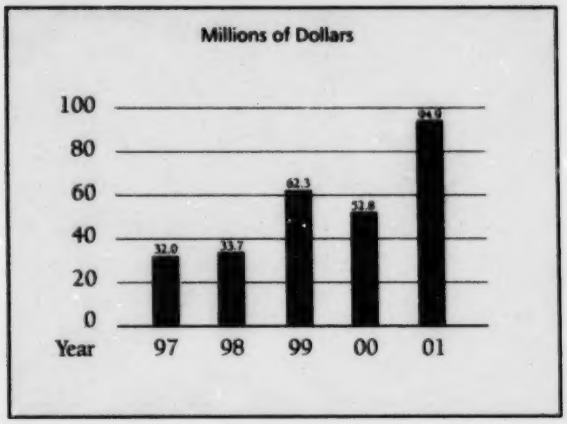
* *Includes sales of recall energy to Hydro-Québec effective March 9, 1998.*

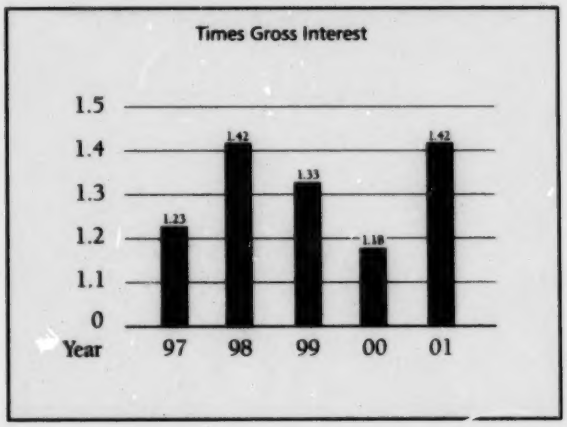
As a regulated utility, Hydro must receive approval for all proposed rate alterations for its retail, rural and island industrial customers from the Board of Commissioners of Public Utilities of the Province of Newfoundland and Labrador (PUB).

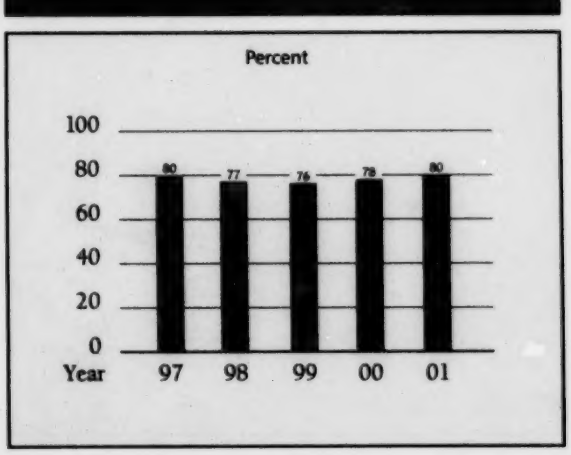
In May 2001, Hydro submitted an application to the PUB for a rate increase with a proposed implementation date of January 1, 2002.

The hearing into the application to the PUB for an alteration in rates commenced in September 2001 and finished on January 29, 2002, with the conclusion of Oral Argument. Until an Order of the PUB is known, Hydro cannot determine the magnitude of the effect on its 2002 regulated earnings.

Throughout 2001, the Province of Newfoundland and Labrador has continued to examine the viability of hydro developments in Labrador.







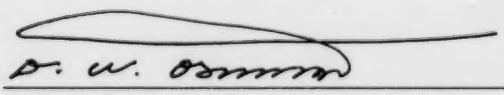
The accompanying consolidated financial statements of Newfoundland and Labrador Hydro and all information in the Annual Report are the responsibility of Management and have been approved by the Board of Directors.

The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles, applied on a basis consistent with that of the preceding year. The preparation of financial statements necessarily involves the use of estimates based on Management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to February 8, 2002. Financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

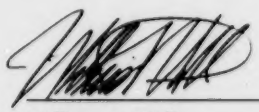
Management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities. An internal audit department independently evaluates the effectiveness of these internal controls on an ongoing basis, and reports its findings to Management and to the Audit Committee of the Board of Directors.

The responsibility of the external auditor, Ernst and Young LLP, is to express an independent, professional opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditor's Report outlines the scope of their examination and their opinion.

The Board of Directors, through its Audit Committee, is responsible for ensuring that Management fulfils its responsibility for financial reporting and internal controls. The Audit Committee meets regularly with Management, the internal auditors, and the external auditor to satisfy itself that each group has properly discharged its respective responsibility and to review the financial statements before recommending approval by the Board of Directors. The internal and external auditors have full and free access to the Audit Committee, with and without the presence of Management.



D. W. Osmond
Vice-President, Finance and Chief Financial Officer



William E. Wells
President and Chief Executive Officer

To the **Lieutenant-Governor in Council**
Province of Newfoundland and Labrador

We have audited the consolidated balance sheet of **Newfoundland and Labrador Hydro** as at December 31, 2001 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2001, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by The Hydro Corporation Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

St. John's, Newfoundland and Labrador
Canada
February 8, 2002

Ernst & Young LLP

Chartered Accountants

As at December 31 (millions of dollars)	**2001**	2000
ASSETS		
Capital assets (Note 2)		
Capital assets in service	**2,566.8**	2,517.7
Less contributions in aid of construction	**109.9**	104.8
	2,456.9	2,412.9
Less accumulated depreciation	**707.6**	669.6
	1,749.3	1,743.3
Construction in progress	**88.7**	46.6
	1,838.0	1,789.9
Current assets		
Cash and cash equivalents	**1.1**	0.4
Short-term investments	**4.0**	4.1
Accounts receivable	**66.7**	62.2
Current portion of rate stabilization plan	**21.1**	11.5
Fuel and supplies at average cost	**46.3**	49.0
Prepaid expenses	**2.0**	2.5
	141.2	129.7
Long-term receivable (Note 3)	**1.1**	3.7
Sinking funds (Note 9)	**42.7**	35.4
Investments (Note 4)	**5.2**	9.3
Rate stabilization plan	**63.9**	24.1
Deferred charges (Note 6)	**147.2**	149.5
	2,239.3	2,141.6

See accompanying notes

As at December 31 (millions of dollars)	**2001**	2000
LIABILITIES AND SHAREHOLDER'S EQUITY		
Long-term debt (Note 7)	**1,156.7**	1,043.3
Current liabilities		
Bank indebtedness	**2.1**	5.3
Accounts payable and accrued liabilities	**48.7**	35.1
Accrued interest	**25.5**	26.7
Long-term debt due within one year (Note 7)	**146.3**	190.9
Promissory notes (Note 7)	**138.0**	120.8
	360.6	378.8
Foreign exchange loss provision	**10.0**	9.0
Employee future benefits (Note 8)	**28.5**	27.1
Non-controlling interest in LCDC	**14.8**	14.8
Shareholder's equity		
Share capital		
Common shares of par value of $1 each		
Authorized 25,000,000 shares; issued 22,503,942 shares	**22.5**	22.5
Contributed capital (Note 4)		
Lower Churchill Development	**15.4**	15.4
Muskrat Falls Project	**2.2**	2.2
Gull Island Project	**100.0**	100.0
Retained earnings	**528.6**	528.5
	668.7	668.6
Commitments and contingencies (Note 11)	**-**	-
	2,239.3	2,141.6

See accompanying notes

On behalf of the Board:

Director

Director

Year ended December 31 (millions of dollars)	**2001**	2000
Revenue		
Energy sales	**374.8**	357.0
Recovery of costs in rate stabilization plan	**11.2**	13.9
Guaranteed winter availability	**7.5**	4.6
Rentals and royalties	**0.3**	0.3
Other	**3.3**	3.9
	397.1	379.7
Expenses		
Operations and administration	**119.1**	119.4
Fuels	**50.2**	42.5
Amortization of costs in rate stabilization plan	**11.2**	13.9
Power purchased	**15.6**	15.8
Depreciation	**44.5**	47.7
Interest (Note 10)	**103.1**	105.5
	343.7	344.8
Net income	**53.4**	34.9
Retained earnings, beginning of year	**528.5**	563.5
	581.9	598.4
Dividends	**53.3**	69.9
Retained earnings, end of year	**528.6**	528.5

See accompanying notes

Year ended December 31 (millions of dollars)	**2001**	2000
Cash provided by (used in)		
Operating activities		
Income before non-controlling interest	**53.4**	34.9
Adjusted for items not involving a cash flow		
Depreciation	**44.5**	47.7
Amortization of deferred charges	**1.6**	1.7
Rate stabilization plan	**(49.4)**	(1.1)
Other	**3.8**	3.1
	53.9	86.3
Change in non-cash balances related to operations		
Accounts receivable	**(2.3)**	0.7
Fuel and supplies	**2.7**	0.9
Prepaid expenses	**0.5**	(1.4)
Accounts payable and accrued liabilities	**6.2**	(7.1)
Accrued interest	**(1.2)**	(0.3)
Employee future benefits	**1.4**	2.0
Adjustment to deferred foreign exchange	**1.1**	0.9
Long-term receivable	**2.6**	0.5
	64.9	82.5
Financing activities		
Long-term debt issued	**250.0**	-
Long-term debt retired	**(185.9)**	(32.4)
Foreign exchange loss recovered	**7.8**	6.4
Increase in promissory notes	**17.2**	66.8
Dividends	**(53.3)**	(69.9)
	35.8	(29.1)
Investing activities		
Net additions to capital assets	**(94.9)**	(52.8)
Decrease in short-term investments	**0.1**	4.0
Increase in sinking funds	**(11.5)**	(10.7)
Decrease in investments	**4.1**	3.7
Additions to deferred charges	**(2.0)**	-
Change in accounts payable related to investing activities	**7.4**	2.2
	(96.8)	(53.6)
Net increase (decrease) in cash	**3.9**	(0.2)
Cash position, beginning of year	**(4.9)**	(4.7)
Cash position, end of year	**(1.0)**	(4.9)
Cash position is represented by		
Cash and cash equivalents	**1.1**	0.4
Bank indebtedness	**(2.1)**	(5.3)
	(1.0)	(4.9)

See accompanying notes

Newfoundland and Labrador Hydro ("Hydro") is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador (the "province") as a Crown corporation and its principal activity is the development, generation and sale of electric power. Hydro and its subsidiary and jointly controlled companies, other than Twin Falls Power Corporation Limited, are exempt from paying income taxes under Section 149 (1) (d) of the Income Tax Act.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and to conform with recommendations of the Board of Commissioners of Public Utilities ("PUB") of the province.

Preparation of these consolidated financial statements requires the use of estimates and assumptions that affect the amounts reported and disclosed in these statements and related notes. Actual results may differ from these estimates.

Rates and Regulations (Excluding Sales by Subsidiaries)

The province enacted legislation in 1996 that changed the manner in which Hydro will be regulated. In future, the rates to be charged to all customers and Hydro's earnings on a rate of return basis, will be fully regulated. As well, Hydro's capital expenditure program is subject to review and approval by the PUB.

Rates charged rural customers do not recover the full costs of providing the service but Hydro recovers the resulting deficit from other customers.

Principles of Consolidation

The consolidated financial statements include the financial statements of Hydro and its subsidiary companies, Gull Island Power Company Limited ("GIPCo"), (100% owned) and Lower Churchill Development Corporation Limited ("LCDC"), (51% owned).

Effective June 18, 1999, Hydro, Churchill Falls (Labrador) Corporation Limited ("CF(L)Co") and Hydro-Québec entered into a shareholders' agreement which provided, among other matters, that certain of the strategic operating, financing, and investing policies of CF(L)Co be subject to approval jointly by representatives of Hydro and Hydro-Québec. Although Hydro retains its 65.8% ownership interest, the agreement changed the nature of the relationship between Hydro and Hydro-Québec, with respect to CF(L)Co, from that of majority and minority shareholders, respectively, to that of joint venturers. Accordingly, Hydro has adopted the proportionate consolidation method of accounting for its interest in CF(L)Co subsequent to the effective date of the shareholders' agreement.

CF(L)Co is incorporated under the laws of Canada and has completed and commissioned a hydroelectric generating plant and related transmission facilities situated in Labrador which has a rated capacity of 5,428,000 kilowatts ("CF(L)Co Project"). A power contract with Hydro-Québec, dated May 12, 1969, ("Power Contract") provides for the sale of substantially all the energy from the CF(L)Co Project until 2041. CF(L)Co receives certain benefits from Hydro-Québec, including significant revenues, under a guaranteed winter availability contract through 2041.

The cost of Hydro's investment in CF(L)Co exceeded the equity in the book value of the net assets acquired by $77.1 million. This amount is assigned to capital assets and is being amortized on a straight-line basis at the rate of 1.5% per annum. As at December 31, 2001, $31.2 million (2000 – $30.1 million) had been amortized.

Under the terms and conditions of the Churchill Falls (Labrador) Corporation (Lease) Act, 1961, CF(L)Co must pay rentals and royalties to the province annually.

A portion of Hydro's shareholding in CF(L)Co is deposited in a voting trust pursuant to an agreement with Hydro-Québec.

GIPCo is incorporated under the laws of Canada. Its objective was to develop the hydroelectric potential at Gull Island on the Lower Churchill River in Labrador, and construct a direct current transmission system from Labrador to the island of Newfoundland (the "Gull Island Project"), (see Note 4).

LCDC is incorporated under the laws of Newfoundland and Labrador and was established with the objective of developing all or part of the hydroelectric potential of the Lower Churchill River (the "Lower Churchill Development"), (see Note 4).

Cash Equivalents and Short-Term Investments

Cash equivalents and short-term investments consist primarily of Canadian treasury bills and banker's acceptances bearing interest rates of 2.15% to 6.09% per annum (2000 – 5.82% to 6.21%). Those with original maturities at date of purchase of three months or less are classified as cash equivalents whereas those with original maturities beyond three months and less than twelve months are classified as short-term investments. Both are stated at cost, which approximates market value.

Capital Assets and Depreciation

Expenditures for additions, improvements and renewals are capitalized and normal expenditures for maintenance and repairs are charged to operations.

Hydro, GIPCo and LCDC

Construction in progress includes the costs incurred in preliminary feasibility studies, engineering and construction of new generation, transmission and distribution facilities. Interest is charged to construction in progress at rates equivalent to the weighted average cost of funds borrowed.

Hydro has made no provision in its accounts to date for future removal and site restoration costs. The inclusion of these costs in the rate base is subject to the rate setting process.

Contributions in aid of construction are funds received from customers and governments toward the incurred cost of capital assets, or the fair value of assets contributed. Contributions are treated as a reduction to capital assets and the net capital assets are depreciated.

Depreciation is calculated on hydroelectric generating plant and on transmission plant in service on the sinking fund method using interest factors ranging from 5.25% to 15.79%. Depreciation on other plant in service is calculated on the straight-line method. These methods are designed to fully amortize the cost of the facilities, after deducting contributions in aid of construction, over their estimated service lives.

Estimated service lives of the major assets are as follows:

Generation Plant	
Hydroelectric	50, 75 and 100 years
Thermal	25 and 30 years
Diesel	20 years
Transmission	
Lines	40 and 50 years
Switching Stations	40 years
Distribution System	30 years
Other	3 to 50 years

CF(L)Co

CF(L)Co uses the group depreciation method for certain capital assets other than the generation plant, transmission and terminals and service facilities.

Depreciation is provided on a straight-line basis over the following estimated useful lives:

Generation Plant	
Hydroelectric	67 years
Transmission and Terminals	67 years
Service Facilities	67 years
Other	3 to 100 years

CF(L)Co has made no provision in its accounts for future removal and site restoration costs as they cannot be estimated at this time.

Losses on other than normal retirements are charged to operations in the year incurred as adjustments to depreciation expense.

Debt Discount and Financing Expenses

These costs are amortized on a straight-line basis over the lives of the respective debt issues.

Rate Stabilization Plan

On January 1, 1986, Hydro, having received the concurrence of the PUB, implemented a rate stabilization plan which primarily provides for the deferral of cost variances resulting from changes in fuel prices, levels of precipitation and load. The balance in the plan is amortized over a three-year period. Adjustments required in retail rates to cover the amortization of the balance in the plan do not require a reference to the PUB and are implemented on July 1 of each year. Similar adjustments required in industrial rates are implemented on January 1 of each year.

[redacted]

Promissory Notes

Promissory Notes bear interest from 2.08% to 3.90% per annum (2000 – 5.70% to 5.99%) with carrying value approximating fair value due to their short-term nature.

Revenue Recognition

Revenue is recorded on the basis of power deliveries made.

Deferred revenue represents amounts billed under the Power Contract in excess of energy delivered. Amounts related to energy delivered in excess of the base amount, as defined by the Power Contract, are recorded as receivables. Differences between amounts related to energy delivered and the base amounts are determined annually and are subject to interest at 7% per annum (2000 – 7%).

Foreign Currency Translation

Foreign currency transactions are translated into their Canadian dollar equivalent as follows:

(a) At the transaction date, each asset, liability, revenue or expense is translated using exchange rates in effect at that date.

(b) At each balance sheet date, monetary assets and liabilities are translated using exchange rates in effect at that date.

(i) In the case of Hydro, foreign exchange losses related to long-term debt, including current portion, are subject to the rate setting process. The PUB has accepted the inclusion by Hydro of realized foreign exchange losses in rates charged to customers. Any such loss, net of any gain, not recovered due to the operation of the rate setting process is deferred to the time of the next rate hearing for inclusion in the new rates to be set at that time. Commencing in 1992, the PUB required Hydro to provide a $1.0 million annual provision for a foreign exchange loss on its Swiss Franc denominated debt. This provision is included in interest expense.

(ii) Under the provisions of the Power Contract, CF(L)Co's exposure for a foreign exchange loss is limited. CF(L)Co recovers a portion of the difference between actual foreign exchange rates prevailing at the settlement dates of its First Mortgage Bonds and a Weighted Average Exchange Rate as defined in the Power Contract. The recoverable portion of the unrealized foreign exchange loss is deferred until the settlement dates. The foreign exchange loss not recoverable under the Power Contract is being amortized to operations on a straight-line basis over the remaining life of the debt. Commencing in 2002, CF(L)Co will implement new recommendations from the Canadian Institute of Chartered Accountants whereby these unrealized gains and losses will be recognized in the current period, rather than being deferred and amortized.

Financial Instruments

Hydro enters into interest rate swap agreements to manage interest rate risk. Net receipts or payments under the swap agreements are recorded as adjustments to interest expense.

Employee Future Benefits

Employees participate in the province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions are expensed as incurred.

Hydro provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee future benefits is accounted for on an accrual basis, and has been actuarially determined using the projected benefit method prorated on service and management's best estimate of salary escalation, retirement ages of employees, and expected health care costs.

millions of dollars	Capital Assets In Service	Contributions In Aid Of Construction	Accumulated Depreciation	Construction In Progress
		2001		
Generation Plant				
Hydroelectric	**1,240.1**	**20.5**	**245.2**	**40.0**
Thermal	**225.8**	**-**	**173.4**	**-**
Diesel	**58.7**	**8.3**	**21.7**	**3.3**
Transmission and Distribution	**666.2**	**56.7**	**140.8**	**1.5**
Service facilities	**22.0**	**-**	**9.1**	**-**
Project costs (Note 4)	**96.5**	**-**	**-**	**-**
Capital studies (Note 4)	**25.0**	**-**	**-**	**-**
Other	**232.5**	**24.4**	**117.4**	**43.9**
	2,566.8	**109.9**	**707.6**	**88.7**
millions of dollars		2000		
Generation Plant				
Hydroelectric	1,239.2	20.5	234.5	3.2
Thermal	223.1	-	166.8	1.5
Diesel	53.6	8.5	19.8	1.9
Transmission and Distribution	646.4	56.8	130.4	2.6
Service facilities	22.3	-	8.9	-
Project costs (Note 4)	96.7	-	-	-
Capital studies (Note 4)	24.9	-	-	-
Other	211.5	19.0	109.2	37.4
	2,517.7	104.8	669.6	46.6

Included in the above amounts are CF(L)Co assets in service amounting to $646.2 million (2000 – $623.2 million) which are pledged as collateral for long-term debt.

The long-term receivable from Hydro-Québec bears interest at 7% per annum and is receivable over a four-year period which commenced in September 2000. The current portion of $1.1 million (2000 – $1.1 million) is included in accounts receivable.

millions of dollars	**2001**	2000
Lower Churchill Option	**5.2**	5.2
Government of Canada Coupons, at cost (market value 2000 – $4.1)	**-**	4.1
	5.2	9.3

LCDC was incorporated in 1978 pursuant to the provisions of an agreement (the "Principal Agreement"), between the province and the Government of Canada. The province and the Government of Canada own equity interests of 51% and 49% of LCDC, respectively. The Principal Agreement provides that future issues of Class A common shares shall preserve, as nearly as possible, this ratio of beneficial ownership. Hydro is the designate for the province's shareholding in LCDC.

Upon agreement to continue with the Lower Churchill Development, GIPCo's assets and the hydroelectric development rights to the Lower Churchill River, (the "Water Rights"), will be acquired by LCDC pursuant to the provisions of an agreement between LCDC and the province, (the "Option Agreement"). The purchase price in respect of GIPCo's assets will be a maximum of $100.0 million less $5.2 million representing the value assigned to 520 Class A common shares of LCDC issued pursuant to the signing of the Option Agreement. As consideration for GIPCo's assets, LCDC will issue a 10% Convertible Demand Debenture in the amount of $94.8 million. LCDC will issue 3,000 Class B common shares, without nominal or par value, to the province in consideration of the Water Rights and the province will transfer such shares to Hydro. The parties have agreed that the value of each Class B common share is $10,000. The Option Agreement expires November 24, 2002, and it is not anticipated that there will be any loss upon sale of GIPCo's assets to LCDC.

Hydro holds 1,540 Class A common shares of LCDC which have a stated value of $10,000 each. 520 shares were acquired in 1979 pursuant to signing of the Option Agreement and 510 shares were acquired in each of the years 1980 and 1981, by way of capital contributions from the province.

The following amounts included in the consolidated financial statements represent Hydro's proportionate share of CF(L)Co's assets and liabilities at December 31, 2001, and its proportionate interest in CF(L)Co's operations for the year ended December 31, 2001.

millions of dollars	**2001**	2000
Current assets	**34.9**	31.5
Long-term assets	**395.0**	412.8
Current liabilities	**40.2**	36.9
Long-term liabilities	**148.8**	173.1
Revenues	**58.6**	60.0
Expenses	**48.4**	46.7
Net income	**10.2**	13.3
Cash provided by (used in)		
Operating activities	**28.3**	28.0
Financing activities	**(25.0)**	(24.5)
Investing activities	**1.2**	1.1

millions of dollars	**2001**	2000
Unamortized debt discount, financing expenses and other	**13.8**	13.5
Foreign exchange losses		
Hydro – Realized	**96.3**	96.3
CF(L)Co		
Recoverable under the Power Contract	**41.2**	41.1
Unrecoverable portion to be amortized	**5.1**	5.7
	142.6	143.1
Less current portion recoverable included in current assets	**9.2**	7.1
	133.4	136.0
	147.2	149.5

	Hydro	CF(L)Co	Total	Hydro	CF(L)Co	Total
millions of dollars		**2001**			2000	
Summary of long-term debt						
Long-term debt	**1,122.3**	**180.7**	**1,303.0**	1,033.1	201.1	1,234.2
Less payments due within one year	**114.4**	**31.9**	**146.3**	162.9	28.0	190.9
	1,007.9	**148.8**	**1,156.7**	870.2	173.1	1,043.3

Required repayments of long-term debt and sinking fund requirements over the next five years will be as follows:

millions of dollars	2002	2003	2004	2005	2006
	146.3	48.9	31.4	29.6	128.7

The payments due within one year include sinking fund requirements of $7.3 million (2000 – $5.8 million).

Details of long-term debt are as follows:

Hydro

Series	Interest Rate %	Year of Issue	Year of Maturity			
millions of dollars				**2001**	2000	
W	10.75	1991	2001	**-**	150.0	
Z	5.25	1997	2002	**100.0**	100.0	
AC	5.05	2001	2006	**100.0**	-	
AA	5.50	1998	2008	**200.0**	200.0	
V	10.50	1989	2014	**125.0**	125.0	(a)
X	10.25	1992	2017	**150.0**	150.0	(a)
Y	8.40	1996	2026	**300.0**	300.0	(a)
AB	6.65	2001	2031	**150.0**	-	(a)
Total debentures				**1,125.0**	1,025.0	
Less sinking fund investments in own debentures				**37.9**	33.7	
				1,087.1	991.3	
Government of Canada loans at 5.25% to 7.91% maturing in 2006 to 2014				**31.0**	36.5	
Other				**4.2**	5.3	
				1,122.3	1,033.1	
Less payments due within one year				**114.4**	162.9	
				1,007.9	870.2	

(a) Sinking funds have been established for these issues.

Promissory notes, debentures, and long-term loans are unsecured and unconditionally guaranteed as to principal and interest and where applicable, sinking fund payments, by the province. The province charges Hydro a guarantee fee of one percent annually on the total debt (net of sinking funds) guaranteed by the province, outstanding as of the preceding December 31.

CF(L)Co

millions of dollars	**2001**	2000
First Mortgage Bonds		
7.750% Series A due December 15, 2007 (U.S. $81.8; 2000 – U.S. $98.8)	**130.2**	148.1
7.875% Series B due December 15, 2007	**8.3**	10.0
General Mortgage Bonds		
7.500% due December 15, 2010	**42.2**	43.0
	180.7	201.1
Less payments due within one year	**31.9**	28.0
	148.8	173.1

The First Mortgage Bonds, Series A and B, are repayable in fixed semi-annual and in contingent annual sinking fund instalments. There has been no contingent repayments in the last five years.

The Deed of Trust and Mortgage securing the General Mortgage Bonds provides for semi-annual sinking fund payments and a balloon payment at maturity. Each semi-annual payment is equal to 1% of the aggregate principal amount outstanding on January 1, preceding each payment date. The General Mortgage Bonds are subordinate to the First Mortgage Bonds.

Due to the contingent nature of the amounts of certain of the sinking fund instalments, it is not possible to be precise concerning long-term debt repayments over the next five years; however, fixed sinking fund payments are estimated to average $25.0 million in each of the years 2002 to 2006 inclusive.

Under the terms of long-term debt instruments, CF(L)Co may pay cash dividends only out of earnings, as defined, accumulated from September 1, 1976. A shareholders' agreement signed in June 1999 places additional restrictions on dividends, based on cash flow.

Pension Plan

Employees participate in the province's Public Service Pension Plan, a multi-employer defined benefit plan. The employers' contributions of $3.6 million (2000 – $3.2 million) are expensed as incurred.

Other Benefits

Additionally, Hydro provides group life insurance and health care benefits on a cost-shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. Information about these plans is as follows:

millions of dollars	**2001**	2000
Accrued benefit obligation		
Balance at beginning of year	**27.1**	25.1
Current service cost	**0.9**	0.9
Interest cost	**2.0**	1.8
Benefits paid	**(1.5)**	(0.7)
Balance at end of year	**28.5**	27.1
Plan deficit	**28.5**	27.1

The significant actuarial assumptions used in measuring the company's accrued benefit obligations include a discount rate of 7.0% and an average rate of compensation increase of 3.5%. In addition, in determining the expected cost of health care benefits, it was assumed that health care costs will increase by 12.0% in 2000 and decrease gradually to 5.0% in 2007 and remain level thereafter.

The net benefit plan expense is as follows:

millions of dollars	**2001**	2000
Current service cost	**0.9**	0.9
Interest cost	**2.0**	1.8
Net benefit plan expense	**2.9**	2.7

Fair Value

The estimated fair values of financial instruments as at December 31, 2001 and 2000 are based on relevant market prices and information available at the time. The fair value of long-term receivable, long-term debt and the long-term payable is estimated based on the quoted market price for the same or similar debt instruments. The fair value estimates below are not necessarily indicative of the amounts that Hydro might receive or incur in actual market transactions. As a significant number of Hydro's assets and liabilities, including fuels and supplies and capital assets, do not meet the definition of financial instruments, the fair value estimates below do not reflect the fair value of Hydro as a whole.

	Carrying Value	**Fair Value**	Carrying Value	Fair Value
millions of dollars	**2001**		2000	
Financial Assets				
Sinking funds	**42.7**	**43.5**	35.4	36.9
Long-term receivable including amount due in one year	**2.2**	**2.3**	4.9	5.0
Financial Liabilities				
Long-term debt including amount due in one year	**1,303.0**	**1,489.9**	1,234.2	1,416.6

Cash and cash equivalents, short-term investments, accounts receivable, bank indebtedness, accounts payable, accrued interest, and promissory notes are all short-term in nature and as such, their carrying value approximates fair value. At December 31, 2001, of the total accounts receivable balance outstanding, approximately 38.5% (2000 – 43.0%) is due from a regulated utility and 39.1% (2000 – 33.8%) from Hydro-Québec.

Sinking Funds

Sinking fund investments consist of bonds, debentures, promissory notes, and coupons issued by, or guaranteed by, the Government of Canada or any province of Canada, and have maturity dates ranging from 2009 to 2028. Hydro debentures which Management intends to hold to maturity are deducted from long-term debt while all other sinking fund investments are shown separately on the balance sheet as assets. Annual contributions to the various sinking funds are as per bond indenture terms and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 5.80% to 10.55% (2000 – 5.80% to 10.55%).

millions of dollars	**2001**	2000	
Gross interest			
Long-term debt	**114.4**	113.5	
Promissory notes	**6.2**	5.7	
	120.6	119.2	
Amortization of debt discount and financing expenses	**1.3**	1.3	
Provision for foreign exchange losses	**1.0**	1.0	
	122.9	121.5	
Less			
Recovered from Hydro-Québec	**14.0**	13.3	(a)
Interest capitalized during construction	**5.1**	3.7	
Interest earned	**11.8**	9.6	
Net interest expense	**92.0**	94.9	
Debt guarantee fee	**11.1**	10.6	
Net interest and guarantee fee	**103.1**	105.5	

(a) Under the terms of the Power Contract, CF(L)Co recovers the difference between interest calculated at the rates prescribed in the Power Contract and interest paid on its long-term debt.

Also, Churchill Falls can request Hydro and Hydro-Québec to make advances against the issue of Subordinated Debt Obligations, to service its debt and to cover expenses if funds are not otherwise available. If such request fails to attract sufficient advances, Churchill Falls can require Hydro-Québec to make additional advances, against the issue of units of Subordinate Debentures and shares of common stock, to service its debt and to cover its expenses that remain unfunded.

(a) Under the terms of a sublease with Twin Falls, expiring on December 31, 2014, CF(L)Co is required to deliver to Twin Falls, at an agreed price, horsepower equivalent to the installed horsepower of the Twin Falls plant and to maintain Twin Falls' plant and equipment.

(b) Hydro has received claims instituted by various companies and individuals with respect to outages and other miscellaneous matters. The aggregate of these claims, less any amounts that have been provided for in Hydro's financial statements, is approximately $1.6 million (2000 – $0.3 million). The final resolution of these matters is currently under negotiation.

Legal proceedings have commenced against Hydro by one of its customers claiming approximately $23.0 million related to outages and plant shutdowns. Hydro is defending this claim and Management believes that this claim will not be successful.

(c) Outstanding commitments for capital projects total approximately $80.9 million at December 31, 2001 (2000 – $47.4 million). Hydro has commenced development of a hydroelectric generating station at Granite Canal. Total project cost is expected to be approximately $134.6 million, with an anticipated in-service date of June 2003. As at December 31, 2001, $40.0 million had been expended on this project.

(d) In connection with the Granite Canal development, Hydro has issued an irrevocable Letter of Credit, in the amount of $5.4 million to ensure compliance with the terms of the Fish Habitat Compensation Agreement between Hydro and the Department of Fisheries and Oceans.

Certain of the 2000 comparative figures have been reclassified to conform with the 2001 financial statement presentation.

Year ended December 31 (millions of dollars)	**2001**	2000	1999[1]	1998	1997
OPERATING RESULTS					
Revenue					
Energy sales	**374.8**	357.0	384.4	391.8	376.9
Rentals and royalties	**0.3**	0.3	0.4	0.5	0.5
Recovery of costs in RSP	**11.2**	13.9	15.4	10.9	7.2
Guaranteed winter availability	**7.5**	4.6	3.6	-	-
Other	**3.3**	3.9	2.4	1.6	1.2
	397.1	379.7	406.2	404.8	385.8
Expenses					
Operations and administration	**119.1**	119.4	112.3	114.1	106.9
Amortization of RSP costs	**11.2**	13.9	15.4	10.9	7.2
Fuels and power purchased	**65.8**	58.3	48.2	34.0	46.4
Depreciation	**44.5**	47.7	51.3	50.5	48.0
Interest	**103.1**	105.5	107.6	117.8	128.4
	343.7	344.8	334.8	327.3	336.9
Income from operations	**53.4**	34.9	71.4	77.5	48.9
Write down of capital assets	**-**	-	16.7	-	-
Net income before non-controlling interest	**53.4**	34.9	54.7	77.5	48.9
Non-controlling interest	**-**	-	3.1	7.9	5.5
Net income	**53.4**	34.9	51.6	69.6	43.4
Contributions to net income					
Hydro Corporate	**40.4**	17.4	31.7	51.2	30.9
CF(L)Co	**13.0**	17.5	19.9	18.4	12.5
FINANCIAL POSITION					
Total current assets	**141.2**	129.7	137.8	164.0	146.3
Total current liabilities	**360.6**	378.8	163.1	294.4	432.8
Net working capital	**(219.4)**	(249.1)	(25.3)	(130.4)	(286.5)
Capital assets	**2,545.6**	2,459.5	2,414.9	2,710.0	2,677.5
Accumulated depreciation	**707.6**	669.6	628.6	719.3	669.2
Capital assets, net	**1,838.0**	1,789.9	1,786.3	1,990.7	2,008.3
Sinking funds	**42.7**	35.4	28.8	113.3	144.3
Other assets	**217.4**	186.6	188.1	255.1	245.9
Long-term debt	**1,156.7**	1,043.3	1,226.4	1,398.5	1,334.0
Other liabilities	**53.3**	50.9	25.3	138.6	139.2
Shareholder's equity	**668.7**	668.6	726.2	691.6	638.8
EMPLOYEES AT YEAR END					
Permanent	**1,026**	1,063	1,069	1,078	1,097
Temporary	**203**	219	207	196	156
Total	**1,229**	1,282	1,276	1,274	1,253

(1) Effective June 18, 1999, Hydro adopted the proportionate consolidation method of accounting for its interest in CF(L)Co (65.8%).

Years ended December 31	**2001**	2000	1999	1998	1997
INSTALLED GENERATING CAPACITY (rated MW)					
CF(L)Co	**5,428**	5,428	5,428	5,428	5,428
TWINCo	**225**	225	225	225	225
Hydro					
Hydraulic	**899**	899	899	899	899
Thermal	**645**	645	645	645	645
Diesel	**57**	55	55	58	58
Total	**7,254**	7,252	7,252	7,255	7,255
ELECTRIC ENERGY GENERATED, NET (GWh)					
CF(L)Co	**32,910**	35,108	34,508	37,543	33,727
Hydro					
Hydraulic	**3,959**	5,016	4,801	4,260	4,628
Thermal	**2,095**	966	914	1,255	1,528
Diesel	**46**	43	41	41	41
Total	**39,010**	41,133	40,264	43,099	39,924
ELECTRIC ENERGY SALES (GWh)					
CF(L)Co					
Export	**28,159**	30,268	29,674	32,793	30,301
Hydro					
Utility	**4,423**	4,263	4,084	4,157	4,306
Rural	**832**	842	830	811	815
Industrial	**1,528**	1,607	1,343	1,286	1,660
Export	**1,558**	1,494	1,731	1,344	-
Total	**36,500**	38,474	37,662	40,391	37,082
AVERAGE SALES REVENUE (cents per kWh)					
CF(L)Co					
Export	**0.27**	0.27	0.27	0.27	0.27
Hydro					
Utility	**4.50**	4.49	4.49	4.49	4.51
Rural	**5.60**	5.53	5.54	5.46	5.45
Industrial	**3.14**	2.90	3.58	3.26	3.24
Export	**2.22**	2.22	2.22	2.22	-
TRANSMISSION LINES (kilometres)					
CF(L)Co					
735 kV	**608**	608	608	608	608
230 kV	**431**	431	431	431	431
Hydro					
230 kV	**1,531**	1,531	1,531	1,531	1,531
138 kV	**1,482**	1,482	1,482	1,482	1,482
69 kV	**636**	636	636	636	636
Total	**4,688**	4,688	4,688	4,688	4,688
PEAK DEMAND (MW)					
CF(L)Co System	**5,637**	5,606	5,590	5,602	5,584
Hydro System	**1,262**	1,240	1,265	1,295	1,229

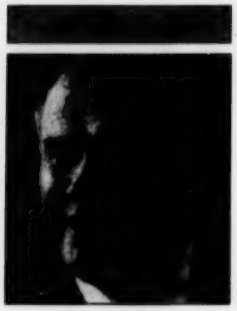
Senior Vice-President
Rogers Communications

Deputy Minister
Mines and Energy

Professional Engineer
(Retired)

Executive
(Retired)

Executive Vice-President
Instrumar Limited

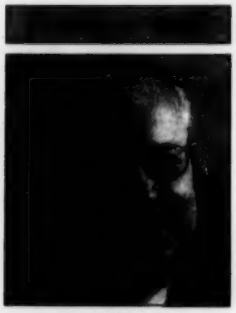


Electrician
Wabush Mines

President
Nexus Consultants

Chairman and
Chief Executive Officer
Vector Aerospace
Corporation

Chairman and
Chief Executive Officer
Corporate Ventures
Incorporated



President and
Chief Executive Officer
Newfoundland and
Labrador Hydro

[redacted]

Dean T. MacDonald
Senior Vice-President
Rogers Communications

Marie-José Nadeau
Executive Vice-President
Corporate Affairs and
Secretary General
Hydro-Québec

Thierry Vandal
Executive Vice-President,
Generation
Hydro-Québec

Albert Hickman
President
Hickman Motors Limited

Leonard Stirling
First Vice-President and
Atlantic Regional Manager
Johnson Incorporated

Robert Warr
Managing Director
Nor-Lab Limited

William E. Wells
President and
Chief Executive Officer
Churchill Falls (Labrador)
Corporation Limited

Victor L. Young
Business Executive

[redacted]

Maureen P. Greene
President

Ralph Berge
Manager, Purchasing
and Energy
Cliffs Mining Company

Maurice McClure
Manager, Financial Services
Iron Ore Company of
Canada

Grant Goddard
Vice-President, Strategic
Planning and Implementation
Iron Ore Company of
Canada

Andrew E. MacNeill
General Manager
Churchill Falls (Labrador)
Corporation Limited

Derek W. Osmond
Vice-President, Finance
and Chief Financial Officer
Newfoundland and
Labrador Hydro

David W. Reeves
Vice-President, Transmission
and Rural Operations
Newfoundland and
Labrador Hydro

James R. Haynes
Vice-President, Production
Newfoundland and
Labrador Hydro

John Sanders
President
Wabush Mines

[redacted]

Dean T. MacDonald

William E. Wells

David Burpee

James R. Haynes

[redacted]

Dean T. MacDonald

William E. Wells

James R. Haynes

David W. Reeves

Derek W. Osmond

[redacted]

Dean T. MacDonald
Chairman

William E. Wells
President and
Chief Executive Officer

James R. Haynes
Vice-President,
Production

Maureen P. Greene
Vice-President, Human
Resources, General
Counsel and Corporate
Secretary

Derek W. Osmond
Vice-President, Finance and
Chief Financial Officer

David W. Reeves
Vice-President,
Transmission and Rural
Operations

Peter A. Hickman
Assistant Corporate
Secretary

John C. Roberts
Corporate Controller

Mark G. S. Bradbury
Treasurer

Gerald C. Bowers
Assistant Treasurer

[redacted]

Dean T. MacDonald
Chairman

William E. Wells
President and
Chief Executive Officer

Maureen P. Greene
Vice-President, Human
Resources, General
Counsel and Corporate
Secretary

Andrew E. MacNeill
General Manager

Derek W. Osmond
Vice-President, Finance
and Chief Financial
Officer

John C. Roberts
Corporate Controller

Mark G. S. Bradbury
Treasurer

Gerald C. Bowers
Assistant Treasurer

Peter A. Hickman
Assistant Corporate
Secretary

[redacted]

Maureen P. Greene
President

Derek W. Osmond
Vice-President, Finance and
Chief Financial Officer

Andrew E. MacNeill
General Manager

John C. Roberts
Corporate Controller

Mark G. S. Bradbury
Treasurer

Gerald C. Bowers
Assistant Treasurer

Peter A. Hickman
Corporate Secretary

[redacted]

Dean T. MacDonald
Chairman

William E. Wells
President and
Chief Executive Officer

David Burpee
Vice-Chairman

Maureen P. Greene
Corporate Secretary

Mark G. S. Bradbury
Treasurer

Peter A. Hickman
Assistant Corporate
Secretary

[redacted]

Dean T. MacDonald
Chairman

William E. Wells
President and
Chief Executive Officer

James R. Haynes
Vice-President, Production
Newfoundland and
Labrador Hydro

David W. Reeves
Vice-President,
Transmission and Rural
Operations

Maureen P. Greene
Vice-President, Human
Resources, General
Counsel and Corporate
Secretary

Derek W. Osmond
Vice-President, Finance and
Chief Financial Officer

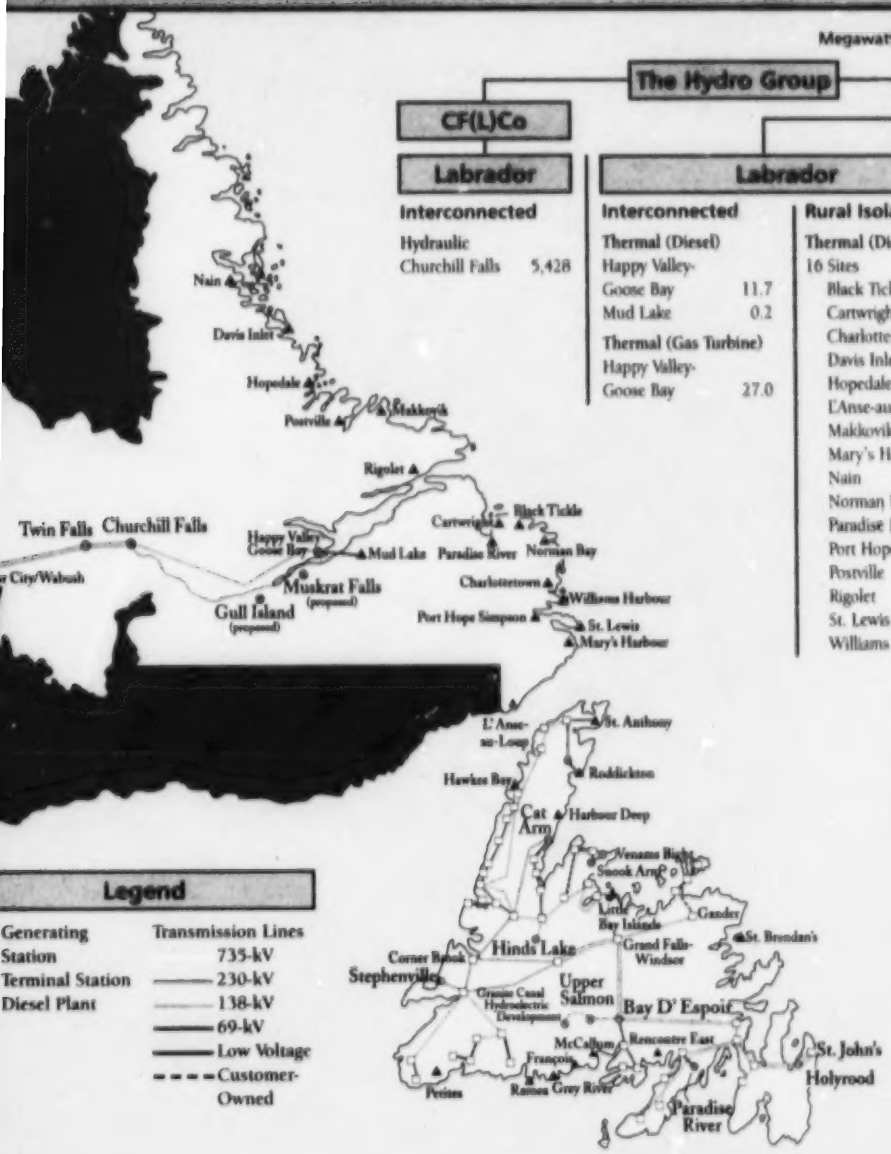
John C. Roberts
Corporate Controller

Mark G. S. Bradbury
Treasurer

Gerald C. Bowers
Assistant Treasurer

Peter A. Hickman
Assistant Corporate
Secretary

2001 Installed Generating Capacity



Megawatts (MW)

The Hydro Group

CF(L)Co

Labrador

Interconnected

Hydraulic	
Churchill Falls	5,428

Hydro

Labrador

Interconnected

Thermal (Diesel)	
Happy Valley-Goose Bay	11.7
Mud Lake	0.2
Thermal (Gas Turbine)	
Happy Valley-Goose Bay	27.0

Rural Isolated

Thermal (Diesel)	
16 Sites	22.2
Black Tickle	
Cartwright	
Charlottetown	
Davis Inlet	
Hopedale	
L'Anse-au-Loup	
Makkovik	
Mary's Harbour	
Nain	
Norman Bay	
Paradise River	
Port Hope Simpson	
Postville	
Rigolet	
St. Lewis	
Williams Harbour	

Island

Interconnected

Hydraulic	
Bay d' Espoir	604
Cat Arm	127
Upper Salmon	84
Hinds Lake	73
Paradise River	8
Snooks Arm/ Venams Bight	1
Roddickton	0.4
Thermal (Oil)	
Holyrood	490
Thermal (Gas Turbine)	
Hardwoods	54
Stephenville	54
Holyrood	15
Thermal (Diesel)	
Hawke's Bay	5
Roddickton/ St. Anthony	9.7

Rural Isolated

Thermal (Diesel)	
9 Sites	7.8
François	
Grey River	
Harbour Deep	
Little Bay Islands	
McCallum	
Petites	
Ramea	
Rencontre East	
St. Brendan's	

Legend

Generating Station	Transmission Lines
Terminal Station	735-kV
Diesel Plant	230-kV
	138-kV
	69-kV
	Low Voltage
	Customer-Owned

2001 Gross Island Interconnected Energy Supply

Gigawatt hours (GWh)

Hydraulic Generation	
Bay d' Espoir	2,400
Cat Arm	685
Upper Salmon	536
Hinds Lake	317
Paradise River	30
Mini Hydro	6
	3,974
Percentage of Total Energy Supply	62%

Hydraulic Power Purchase	170
Percentage of Total Energy Supply	3%
Thermal Generation	
Holyrood	2,218
Gas Turbine and Diesel	1
	2,219
Percentage of Total Energy Supply	35%